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American Woman's Society of Certified Public Accountants

American Society of Women Accountants

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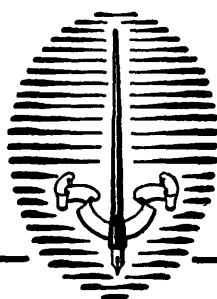
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VOLUME 20



NUMBER 4

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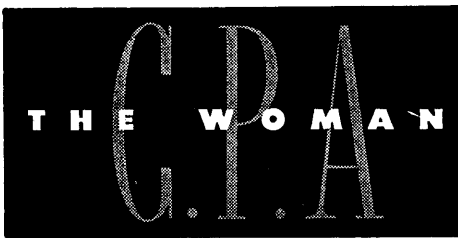
Catherine Miles, Ph. D

J U N E

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Official Publication

AMERICAN WOMAN'S SOCIETY OF CERTIFIED PUBLIC ACCOUNTANTS
AMERICAN SOCIETY OF WOMEN ACCOUNTANTS

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RECORDS AND REPORTS FOR LABOR UNIONS

By HAZEL J. SKOG, C.P.A., Spokane Chapter

"And now for the latest news on the labor front". How many times have we heard this over the radio these last months—how many of our papers have headlined labor scandals? It has come to the point where Mr. and Mrs. Average America must think every labor union official is dishonest; every member a poor misguided soul, because of affiliation.

While it would be far from my intent to question any of the information that has been published, the sad part is that only the bad news is news to the public. This could be put in the same category as teenage news. We read and hear about the wild, reckless and even criminal-minded acts of teenagers and ask "what are the teenagers coming to?" Unless one has worked with teenagers, one does not recognize the fact that for every one who disobeys the laws, there are hundreds who are a joy and make our chests swell with pride over the coming generation.

So it is with labor unions; for the ones with self-centered officials, there are hundreds of others with officials who recognize their responsibility to the members and the public, who insist on regular audits by qualified accountants, who depend on the accountant for advice and guidance so that their records will, at all times, be consistent with good accounting principles and their funds used only for the purpose for which they were established.

A labor union is a non-profit organization: unless it owns income-producing property or is engaged in an income-producing venture. It is not taxable for income tax purposes for the reason that the funds received from members in the form of dues, fees, fines, etc., have already been taxed to the individual members.

Inasmuch as reports to members must be in a form understandable to individuals not accustomed to accounting terminology, a cash statement is used. Because a union is not taxable, do not think there are no annual reports. A labor union makes more reports at the end of its year than a partnership or a sole proprietorship. In lieu of an income tax return, a union reports on Form 990, which includes a statement of income and expenses, balance sheet and

analysis of worth. The statements mentioned above as well as answers to questions on method of selecting and compensating officers, bargaining authority, and other information are also required to be filed with the National Labor Relations Board. Non-communist affidavits are required of officers and trustees, and the annual report is made available to the membership.

For every national labor organization there are probably forty-eight state offices and hundreds of locals. As accountants, most of us will deal either with state or local unions. Although local and state audits are usually detailed audits, it is still necessary to determine the scope of the audit before a program is set up. The method in which the union handles funds is a consideration. Following are common practices:

A. The treasurer maintains the records, receiving periodically a check from the financial secretary for funds collected.

B. The financial secretary maintains all records, receiving all income and making all authorized disbursements with the treasurer co-signing checks.

C. A non-member is employed as bookkeeper or secretary-bookkeeper, to receive all income, maintain records and write authorized checks, which are signed by designated officers.

In example A, is the audit to be of the treasurer's records only or are the records of the financial secretary to be examined also? In both B and C full detailed audit of all receipts and disbursements is advisable.

The next problem to be considered is the type of records that have been kept. Usually national offices set up forms for recording receipts and disbursements. This constitutes a simple cash-book form of accounting either in loose-leaf or bound form. There may be no check register, or the bank balance may be far from correct due to checks having been written and included in the monthly reports for a membership meeting, then voted down, but never cancelled. To be able to comply with annual report requirements, it is necessary to set up double entry records and to instruct the proper individual how to

keep the records. This education responsibility never ends because with every change in officers, the instruction process must be repeated, particularly where the records are kept by a member.

Although in an article such as this, it is only possible to mention the matter, a big responsibility in auditing and reporting on labor union records has to do with knowing the funds. These funds may be of many kinds, some set up temporarily for some extra-ordinary expense, such as major repair on the labor hall; trust funds for death benefits; contingent funds for aid to ill or pensioned members, or possibly for convention delegate expense. The accountant needs to know the purpose of each fund, how it is established and maintained if permanent, and what payments are authorized.

As in all audits, it is necessary to report on real and personal property owned by the union, including possibly a labor hall, bonds and other investments. Permanent records of property often are non-existent since a cash-book system usually does not provide for a record of assets having a continuing life.

A simple cash statement has been prepared to permit a discussion of some of the problems relating to reports for unions. This statement is not complete, even for a small local, but it will illustrate some of the points to be considered.

Under receipts there is an item of contingent fund dues, the same amount is paid to the contingent fund. It is important that when funds are collected by one general treasurer, financial secretary or other officers, that these funds, to the penny, be transferred to the designated fund. In general, labor unions are very strict in guarding these special funds. Often it is necessary to have permission from General or International Headquarters to establish such a fund, and once set up, the fund cannot be loaned, even temporarily, to any other fund.

To illustrate, it may be assumed that the statement used as an example is for a local union going through a seasonal period of low employment when members do not pay full working dues. It may further be assumed that the contingent fund has a balance of \$5,000.00 not immediately required for disbursement. It would appear expedient to borrow from the contingent fund in this instance for the period until members are back on full

working dues, rather than to cash savings bonds. In many unions, even with unanimous approval of the board of directors, or membership sanction, the officers bonded for the funds could find themselves subject to special investigation or even fined, if they had made such a transfer.

Notice that under disbursements, affiliation dues are grouped and subtotaled. There are three reasons for this manner of presentation:

1. Since annual reports of labor unions call for a total of affiliation fees, year-end work can be saved by maintaining this information on a current basis.
2. A summary of the monthly statement is usually given to the membership rather than a detailed report.
3. By grouping items and using a more or less uniform form for each monthly report, the officer in charge of finance can more readily resolve the questions which arise in the administration of the union's affairs.

An illustration of using understandable terms is found in the matter of payroll taxes. When the "man on the street" mentions his payroll deductions, he usually calls it either "social security" or "that old-age pension deduction". Therefore similar terms are employed in preparing the statement, especially since the auditor generally is not present when the report is presented.

In the matter of furnishing "full information", there is the listing of all wages paid, full payroll less deductions. If the payroll is large, it may be advisable to prepare a separate schedule of salaries, showing the net amount on the statement. Salaries of officials of non-profit organizations are set by the membership, which has a right to know that the salary which has been voted has been paid, nothing more and nothing less.

Notice also the parenthetical insert (4 payroll periods). The following month the payroll may be higher, and some alert member will notice the amount as it is given. If the officer can state "there were five payroll periods this month" the few moments of the accountant's time necessary to add this information may be considered time well spent.

Under the salary figure there is illustrated still another point, and should a local's treasurer read this article he need not feel it a deliberate attempt to under-rate his value to the organization. The

CASH STATEMENT

Month of February, 1958

RECEIPTS:

Dues	\$2,000.00	
Contingent Fund dues	200.00	
Fines	75.00	
Application fees	200.00	
Rent	150.00	
Total receipts — month ended February 28, 1958		\$2,625.00

DISBURSEMENTS:

Per capita taxes:			
General Brotherhood	\$ 500.00		
State Brotherhood	200.00		
State Labor Council	25.00		
City Labor Council	10.00	735.00	
Salaries (4 payroll periods)			
Financial Secretary	500.00		
Business Agent	460.00		
Bookkeeper	350.00		
Treasurer	10.00		
Total salaries	1,320.00		
Less withholding of:			
Social Security	\$29.50		
Withholding tax	135.00	164.50	1,155.50
Office expense		15.00	
Legal and accounting		100.00	
Travel expense		75.00	
Car expense		50.00	
Local union expense		25.00	
Contingent Fund		200.00	
Payroll taxes:			
Social Security — employer's tax	28.00		
Social Security — employees' tax	28.00		
Withholding tax — employees' tax	132.00	188.00	
Total disbursements — month ended February 28, 1958			2,543.50
Increase in funds — February 1958			81.50
Add:			
Bonds cashed — funds received February 1958			750.00
Interest on bonds cashed			108.50
Total increase in funds — February 1958			940.00
General Fund checking account — Balance February 1, 1958			60.00
General Fund checking account — Balance February 28, 1958			1,000.00
Checking account — National Bank — as reconciled to			
February 28, 1958			1,000.00

\$10.00 monthly wage is used to illustrate the fact that salaries under \$50.00 a quarter are exempt from quarterly Federal Insurance Contribution tax, and in most states from Employment Security tax. It is well to check this matter in the states of your region. What is the problem? Mr. Treasurer received his regular \$10.00 monthly stipend during the first quarter, no tax; through the second quarter, no tax; July and August, no tax; but the last week in September he is elected to represent his local as a delegate to the state convention. This means he will miss two working days for which the local will pay him journeyman wages. Now the office has to go back to July and August to pick up his wages because the total for the quarter is over \$50.00. While this may not seem to be a problem with one isolated case, if there are twenty-five or thirty officers, officers pro tem, directors or committee chairmen receiving nominal amounts for services, constant watching is needed. As another example a member serves on a special committee in July, for which he received \$5.00, the first amount he had received during the year. In September he, too, is elected a delegate and receives \$45.50 wages. Had the convention come in October, neither of the amounts would have been taxable.

An important point deals with the increase or decrease in funds during the period. To a labor union this shows whether it is living within its means. Labor unions have little in the form of receivables since their members must pay dues or forfeit working rights; and they have little in the form of accounts payable as the two large items of expense relate to affiliation fees and wages. Affiliation fees must be paid promptly because membership benefits would often be lost should these per capita taxes become delinquent, and employees in any organization demand that their wages be paid promptly.

Some may think it double talk to add as a last line "as reconciled to bank statement". Although reconciliation with the bank is a matter of course in preparing a cash statement, all questions must be anticipated. Direct bank confirmations and other auditing procedures are not generally known by the layman, but most Americans who have kept a checking account know there is such a thing as a bank reconciliation. In one instance each month a copy of the bank reconciliation had been furnished the treasurer. One day a trustee

called to ask: "Do you reconcile with the bank?" He had no fault to find with the statement, but this appeared to be his way of mentioning the fact that he had been reviewing the statement. He was told that an audit would not be complete without this important reconciliation, and that the treasurer had had this information on a monthly basis. From such instances we learn never to take a single thing for granted.

Before leaving the cash statement there is the matter of the authorizations for disbursements. Because labor unions are organizations of members from a particular craft or trade, and because no one member can hold more than one voting right, authorization for payment even of routine bills can be quite different from the methods employed in commercial enterprises. These are some of the methods used:

1. All bills are presented to the membership at the weekly meeting. Upon approval, the recording secretary completes a printed pre-numbered voucher with the following information: Date, payment authorized to, payment authorized for, and the amount. This form is signed by the recording secretary and the president. This method saves checking minute books, and, since the forms may be filed in numerical order, they will show not only that the payments have been authorized, but also that payment of authorized expenditures has not been deferred.

2. The bylaws may provide for payment of ordinary expenses such as rent, telephone, etc., thereby eliminating the necessity for authorization of regular monthly expenses. Special authorization would still be required for all other expenditures.

3. A finance committee is elected to pass on routine bills. This committee also makes recommendations to the membership of the advisability of unusual expenditures, which may take the form of purchase of equipment, repair or improvements to the labor hall, and other non-recurring items.

4. Some labor unions pass on all bills at their meetings, with the minutes as the only proof of authorization.

Working with labor unions can be an interesting and challenging phase of the accounting profession. Each has its own problems with enough variation to prevent the work from becoming routine.

ASWA HIGHLIGHTS OF THE YEAR

By ALMA A. WESTERMANN, National President 1957-58

The administrative year 1957-1958 has been a fruitful one for the American Society of Women Accountants.

A record number of new chapters are being prepared for charters, widening the opportunities for assisting women to succeed in the profession.

For the first time the technical papers presented at the joint annual meeting of the American Woman's Society of Certified Public Accountants and the American Society of Women Accountants have been published and distributed to the entire membership of the American Society of Women Accountants.

Our outstanding joint project with AWCSPA was the preparation of a brochure of biographical sketches of the past presidents of both societies, which is to have wide distribution. This was published to draw attention to examples of some of the contributions made to the profession by women.

We have continued to work closely with our affiliate in every way possible for the furtherance of our common objectives, and the bond between our two societies has been further strengthened. This bond is indeed unique among professional societies. Both AWCSPA and ASWA endeavor to overlook no opportunity to combine the talents of women in the profession regardless of the level on which they work.



Officers and committee chairmen have given generously of their time and talents to govern the society this year, as heretofore, and to do everything possible to advance the interests of women in accounting. In my opinion it has been a good year!

OUR READER RANKS CONTINUE TO GROW

Three new chapters join the ranks of ASWA membership: Coeur d'Alene, No. 57, the first chapter in the State of Idaho, Tucson, Arizona, No. 58, and Fort Worth, No. 59. We also note substantial additions to the list of AWCSPA members, many of whom received the publication as ASWA members in the past but some who will be receiving it for the first time. We hope all will find the publication meaningful, and solicit comments on the contents of each issue.

Following is the list of changes or additions to the list of chapter presidents:

Charleston—Mrs. Charlotte S. Peck
P.O. Box 611, Charleston, West Virginia

Coeur d'Alene—Mrs. Ann Baker
1224 St. Maries Avenue, Coeur d'Alene, Idaho

Fort Worth—Mrs. Ruth Estill Boone,
CPA
2508 Mission St., Fort Worth, Texas

Sacramento—Mrs. Edith B. Shane, C.P.A.
1949 Vallejo Way, Sacramento, Calif.

Tucson—Mrs. Pauline Coppenbarger
2910 East 23rd Street, Tucson, Arizona

ASWA Officers 1958-59



CAROLYN J. ABERNETHY

NEW YORK, N. Y.

President

Miss Abernethy has served the society as vice-president, treasurer, director and chairman of the program and new chapter development committees. She is a charter member and past president of the New York Chapter, and has not missed an annual meeting since 1946.

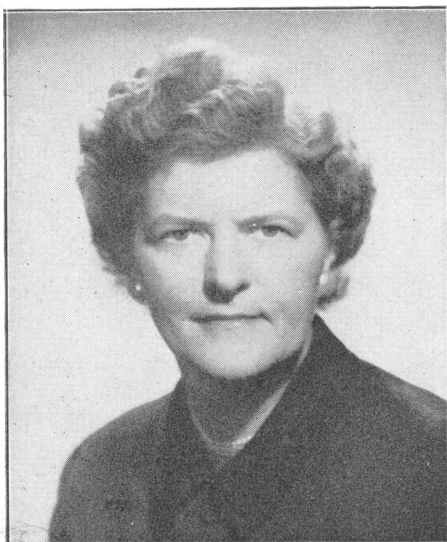
A graduate of New York University, she is employed by the Pearson Advertising Agency, Inc. She is a member of Commerce Alumni of New York University, of the American Woman's Party, and of the Presbyterian Women's Organization.

The President's Message

To serve in the highest office of our fine organization is indeed a privilege which I value highly. You have selected a well-qualified board of directors to serve with me, and I believe I speak for each of them when I say we are honored to serve you for the coming year. Each of us recognizes her responsibility and will do her utmost for the American Society of Women Accountants. We look to you for your co-operation to help us fulfill our duty of leadership.

Perhaps 20 years ago, when the American Woman's Society of Certified Public Accountants dared to

dream of an auxiliary group, they did not anticipate the many changes in business and world economic conditions which would come as a challenge to us. Yet it is these opportunities which have strengthened our organization and helped it to grow. We are grateful to those women who had the foresight to plan for us and always have been an inspiration. As we embark on the third decade of this society, may we ever be a credit to them. Let us look ahead and extend the privileges we have enjoyed to those who are yet to follow.



ELEANOR E. BECKER

ROSELLE PARK, N. J.

Secretary

Miss Becker is an accounting supervisor for the Ruberoid Co. at the central accounting office in South Bound Brook, New Jersey. She holds a degree in accounting from Rutgers University and has completed graduate work in economics at New York University and special classes in taxation at the Seidman School in New York City.

In addition to serving as a director of the New York Chapter of ASWA, she holds membership in the National Association of Accountants and serves on the New Jersey State Chamber of Commerce Social Security Committee and the Finance Committee of the Washington Rock New Jersey Girl Scout Council.

GENEVIVE A. MICHEL

SEATTLE, WASHINGTON

First Vice-President

Miss Michel has served ASWA as publicity chairman and as president of the Seattle Chapter. She is office manager in the comptroller's division of the University of Washington, the school from which she holds a B. A. degree in accounting.

A certified public accountant in the State of Washington, she has served AWS CPA as director, treasurer, and chairman of the finance committee. She is a member of the Washington Society of CPA's and of the National Office Management Association.



E. VIRGINIA BARNETT

HOUSTON, TEXAS

Second Vice-President

Miss Barnett has served as a member of the editorial advisory board of *The Woman C.P.A.* She holds a bachelor of business administration degree in accounting from South Texas School of Commerce, a bachelor of science degree in economics and a master of business administration degree in management from the University of Houston. She practices as a registered public accountant in Houston, and until October, 1957, served as assistant registrar, University of Houston, downtown school.

She holds membership in the following national honor fraternities: Phi Kappa Phi, Sigma Iota Epsilon and Kappa Delta Pi; is a member of the National Association of Accountants, National Association of Parliamentarians, National Federation of Business and Professional Women's Clubs, and serves the following civic organizations: Houston Symphony Society Maintenance Fund Campaign, Houston Grand Opera Association, and Houston Y. W. C. A. Finance Committee.



ERMA A. SEMBACH

CINCINNATI, OHIO

Treasurer

Miss Sembach has served the Cincinnati Chapter as president and in many other capacities. She received a certificate in accounting from the Evening College, University of Cincinnati; is vice-president and treasurer of the Cin-Made Corporation, and holds membership in Zonta, International.



TAX NEWS

LOUISE A. SALLMANN, CPA, Oakland, California

The taxation of capital gains and losses has always caused considerable comment and controversy. Considering whether or not they should be included as income for tax purposes leads to tenuous problems. Some of these problems arise from differences in definition and interpretation as to what is income and what are capital gains and losses. From the viewpoint of the taxpayer, it is a questionable practice to tax in a single year appreciation in value of capital or earnings accumulated over a period of years. In drafting revenue measures, Congress has been guided by the thought that such receipts represent tax-paying ability even though it may be difficult to allocate to years of accrual. Moreover, much revenue might be lost if these receipts were disregarded. Therefore, the laws have been administered on the theory that capital gains are taxable income for the year of realization.

If Congress has been confused and frustrated in the treatment of capital gains since 1861, consider the poor taxpayer.

How often have you had to explain away to clients or employers the catch line used to advertise various tax services, such as, "100 Ways to Convert Income Into Capital Gains"?

There are, of course, certain circumstances and/or procedures which if properly applied will produce this advertised result. However, as is generally the case in the do-it-yourself television type of advertising, it is never as easy as it looks.

In a recent case (Hoy, TCMemo 1958-28), the taxpayer obtained a favorable decision on the conversion of future royalty payments from ordinary income to long term capital gains by careful planning. Mr. Hoy was the patentee of an improved meat mold. He first transferred all his patents to his wholly owned corporation. The corporation later sold the patents for royalties payable over a 10-year period. The corporation was subsequently liquidated and the royalty contracts were distributed to Mr. Hoy. Hoy treated the contracts as having no value and reported capital gain based on royalties received by the corporation prior to liquidation. Royalties received by Hoy under the contract which he had received in distribution were reported by him

as additional capital gain when and as received.

The Commissioner claimed that the royalty contract had a fair market value on the date of liquidation, which value should have been taken into account in computing Hoy's capital gain that year. The Commissioner also contended that royalties in excess of this value were taxable as ordinary income. According to the Tax Court decision, however, the contract had no ascertainable value, since future royalties depended upon future production and sales by a company over which the taxpayer had no control.

Prentice-Hall suggests that to obtain similar results careful consideration should be given to complete liquidation (not under Section 333), a contingent sales price, and to the requirement that the seller need not render future personal services.

Another possibility of the much desired capital gains treatment is now available under Rev. Rul. 57-565 (IRB 1957-48), as it pertains to the sale of undivided portions of subdivided investment property. It is now possible to hold a subdivided section as an ordinary asset and to be able to sell that portion of the real estate not subdivided at a gain which will be treated as capital gain.

Another interesting and related problem is that of converting what appears to be a capital loss into an ordinary loss. In the past there have been favorable decisions by the Tax Court where the facts involved were such that although the asset which was sold at a loss would normally be classified as a capital asset, in specific instances they may be defined as assets used in a trade or business. In Rev. Rul. 58-40, IRB 1958-7, the Commissioner has agreed to go along on certain factual cases. These cases deal with the sale of securities which the taxpayers could prove were purchased not for investment or speculation, but for a purpose directly connected with the firm's regular business operations. The cases are cited in the Tulane Hardwood opinion (24TC1146).

Unfortunately, this sort of ruling works against the taxpayer as well as for him. In the Corn Products case (350 U.S. 46, 47 AFTR 1789), a refining company bought

(Continued on page 13)

ASSIGNMENT—BUDGET DIRECTOR

By SISTER ELISE, S. C., Treasurer General of the Sisters of
Charity of Cincinnati, Ohio

There is a spreading view that budgeting rests on principles which have more in common with human relationship than with rules of accounting; and that, if these principles are applied, successful budget practices are inevitable.

At the outset a definition of "budget" might be in order, and a humorous one, which all financial managers will probably appreciate is this: "A budget is a scientific device for worrying before you spend instead of after." However, a budget may be defined as an estimate of income based upon past performance, present economic conditions and income potential, and a plan to use this income for operations, additions to plant and reduction of debt.

Even the smallest business can use a budget, and most business enterprises are operating from a budget, whether or not it is reduced to writing. Now the logical question is: why do we want to go to all the trouble of a long, tedious and controversial plan if it is recognized that budgeting is being done by so many without a formal written plan? Among the many reasons why a budget should be reduced to writing are these:

1. The budget will measure the actual performance of the business financially and statistically.
2. The budget will build an "esprit de corps" if the proper steps are taken and the key personnel assist in its preparation.
3. The budget will be a control of expenditures.
4. The budget will be a basis for long range planning.
5. The budget will eliminate guesswork because it is planned on intelligent estimates based upon past experience.

Budgeting is a trained, disciplined approach to all problems, which recognizes the need for standards of performance in order to achieve a result. Hence it must be built on a base of good organization; otherwise, favorable attitudes have no chance to operate. But at the same time it lives in an atmosphere of perpetual adjustment to the needs and capacities of people. It thrives on such fundamentals as

recognition of accomplishment, consideration for the rights of individuals, fair play—in other words, enlightened relationships among people.

In exploring budgeting principles as they relate to people, the first consideration should be the motivation for the budget system. Why have one at all? Is the budget a part of a system of over-all planning, in order that all concerned may have a measure of the amounts to be spent, and in order that action may be by design rather than by expediency? Or is the budget a pressure device designed to goad people into greater efforts? It takes a little soul-searching to determine honestly which of these concepts represents the position of a particular management.

It has been shown again and again that high costs which stubbornly resist all efforts of the pressure type will melt away under the warmth of an approach which is attuned to the basic responses of humanity. The attitude to be adopted here is an enlistment of all concerned in a common effort, with a complete explanation of objectives and methods.

Next in the line of exploration of principles is the dependence of budgets on general company planning. Although budgeting can be separately applied to any unit of the business, it is far more effective when it rests on a foundation of integrated planning for the entire operation. In the proper sense, it is only one phase of planning. When the planning concept has been adopted, budgets emerge of necessity—budgets with a purpose as deep as the stream of ideas giving direction and drive to the business itself.

The presence or absence of intelligent planning is reflected to a surprising degree in the effectiveness of the people who are asked to operate with a budget system. And this means all the people—from top executives to production-line workers. Individuals are usually more intuitive than we realize. When a budget is built on sound business planning, they respond to that fact without always knowing why.

As used in this discussion, *planning* refers to the predetermination of a course of action in such detail that every respon-

sible unit of the company may be guided thereby. It includes sales forecasting, production scheduling, expense budgeting, and estimating of manufacturing costs and inventory levels. It involves making advance decisions concerning new product development and introduction, merchandising methods, material procurement, and labor rates. In short, planning implies anticipating all the knotty problems to be met by a business during the planning period—usually a year so far as operations are concerned, longer for financial and developmental activities—in other words, facing the problems and making decisions about them *ahead of time* (subject to later revision if necessary).

These decisions are frequently so hard to make in advance that they border on the impossible. Yet they insure a reasonable net profit as no other method can. And on this planned net profit figure—the apex of the planning structure—depends our ability to attract new capital as needed and to compensate management and shareholders.

One need not elaborate the importance of profit planning, it must be recognized that when budgeting has a hard core of deliberate planning, adhered to by the company's top, middle, and all other management, the budget idea takes on real meaning for all concerned. Without this basis, it can never be completely palatable to those who do not understand how it can benefit them.

Let us examine the effect of the planning process on the people involved in it. In particular, we might first consider the impact on administrative people, for their outlook in the long run determines the attitudes of the larger non-administrative group. What is the planning technique doing to foremen, department managers, division heads? Is it building up or tearing down their confidence in their company's future? Is it affecting favorably or adversely their independence of thought, their self-assurance, their capacity to understand and rely on those around them?

It seems self-evident that planning alone does not afford the entire answer. There is another phase of budgeting which tests the fiber of men even more than planning. I am referring to control, which is the eternal complement of planning. Neither one is useful without the other, and to budget even the smallest unit of a business implies the presence of control also.

It is in the control area that the colossal

mistakes of budgeting are made. It is here that the amateurs have censured their subordinates for exceeding budgets, without realizing that they themselves were to blame for inadequate training. It is here that men have become so frustrated under maladministered budgets that they have resorted to all sorts of tricks to conceal the actual results and have padded their budgets to give themselves breathing room. It is here that staff men have usurped authority; merited pay increases have been denied because of budget limitations; and tales have been carried around supervision and up to the top under the guise of budget reporting.

The list of abuses could be prolonged indefinitely. There are many wrong ways to exercise budget control. There is only one right way. Let us then discard the negative approach, since the assertion of an affirmative truth will dissolve all counterfeits.

Control might be quickly and simply defined as a disciplined effort to follow a plan or explain deviations from it. The effort referred to takes the form of self-discipline—voluntary, unified, and cooperative. The deviations from plan are deliberate, foreknown, and authorized. If they are apparently beyond anyone's ability to prevent—as for instance a failure to reach budgeted sales volume—at least they are spotlighted as early as possible, and management has the chance to take whatever action is indicated. Control is simply the modern form of the old formula, “management by exception.”

It is, of course, at the point of deviation from the budget that most of the human problems are born. This is, by design, the central point in the entire system—the moment which demands explanation, instruction, decision, argument, or even discipline, as the case warrants—the flash point for management in action.

Establish the meaning of control, and then put it into practice. In particular this requires the manager of each department to establish his own budget, based on his understanding of the job to be done. Top management may not be able to approve as high a figure as he asks for, but it can reach agreement with him as to what he is expected to accomplish and what it will cost. Having done this, he is responsible for planned performance. If he finds it necessary to exceed the budget, he should discuss this action with his superior and ask for advance approval. A budget is

neither to be considered sacred nor to be taken lightly. Managers will respond with better attitudes when they understand that the use of the budget is to permit them to control their own operations.

Insist on a clear-cut organization structure. A budget system cannot thrive without it. Each department should have a responsible manager, vested with authority commensurate with his responsibilities. He should have a clear understanding both as to the individual to whom he reports and as to the people who report to him. These are well-known precepts.

Arrange for good, common-sense accounting and complete, simple, and prompt explanations of the content of the items. This requires an accounting staff that is more concerned with the operating facts than with the techniques of balancing the books. Extreme care should be devoted to seeing that no supervisor has in his budget any item over which he does not have control. This area is fraught with debatable items and unending technical complications. If your house is not in order in this respect, almost any amount of effort is justified to put it in shape. And unless you are the exception to the rule, it will cost more money initially than you expect to pay, in terms of staff salaries and, perhaps outside consulting services. The cost is usually well justified, however, in the end result.

In the field of cost control, use your budget as a tool to be placed in your foremen's hands—not as a club to be held over their heads. To implement this rule, it may be well to design an educational program. Meetings attended by line and staff supervisors may prove an effective vehicle. Cost reduction must be placed on the basis of mutual effort toward a common aim. The creation of this atmosphere is an essential, definitive step in budget practice.

It is the controller's job to establish, maintain, and coordinate a budgetary system—in fact, a complete system of planning and control. But this work must be accomplished through authorized management. He must not enforce his instructions nor issue orders. He and his staff must be devoted to producing, reporting, and interpreting information—to making the planning and control machinery run. He is wholly a staff executive, and his only honors stem from the confidence of his associates. This he earns by honestly providing the control service and refraining from making operating decisions.

The present era demands a new appraisal of our daily work. The symptoms of budget irritations may point to deeper meanings in the spiritual emancipation of mankind. We are beginning to learn that no tool can be used effectively unless the hand that guides it is rightly motivated. Like all other techniques of business, the budget should be a door open to more satisfying and profitable work—not an instrument of torture.

Then it will be known that what you can do without a budget you can do better with one. It will be seen that the entire planning and control procedure, under whatever name, is a device for freeing men to do their best work—not a machine of restriction and condemnation. This better view is within our grasp today.

Planning is but another word for the vision that sees a creative achievement before it is manifest. Control is but a name for direction. The genius of management cannot fail to turn the budget idea finally into positive channels, so that people individually, as well as business leadership generally, will reap the harvest that it promises.

(Continued from page 10)

corn futures and realized a substantial profit on their sale. The Court found that the futures were not purchased for investment or speculation but as "an integral part of its business designed to protect its manufacturing operations against a price increase in its principal raw material and to assure a ready supply for future manufacturing requirements." Therefore the gain was ordinary income.

In any case, it behooves the taxpayer to clearly define his intention when buying a capital asset for other than investment or speculation purposes in some permanent record such as the minutes of the corporation, since the tax disadvantages of capital loss versus ordinary loss are so much more drastic than capital gain versus ordinary income.

IDEA EXCHANGE

By LUCILLE PERELMAN, C.P.A., Charleston, West Virginia

NEED A HANDY CALCULATOR?

In spite of the fact that this is a machine age, there still come times in the accountant's schedule when all of the machines in the office are tied up or one is caught in a client's office without a calculator and a too small adding machine. Then when one wants to multiply a great many figures with the same multiplacand (such as figuring percentages with reciprocals) or dividing a great many with the same divisor (such as figuring percentages directly), a quickly made table will simplify and speed the process.

The table may be made in the following way: Take the multiplicand or divisor—say 28675; add it to itself; add the first and second figures to get a third; add the first and third to get a fourth and so on down to the first and ninth to get the tenth. The tenth figure should be only an 0 added to the first—286750. If it does not prove out correctly, a short time checking will find the error.

Table

28675	— 1
57350	— 2
86025	— 3
114700	— 4
143375	— 5
172050	— 6
200725	— 7
229400	— 8
258075	— 9
286750	— 10

Now to multiply by 4985 merely set down the figures thusly and add:

4	114700
9	258075
8	229400
5	143375
	142944875

For division use the usual process, but a glance at the table will give the number of times the number is contained without any guessing or experimenting and with no errors in multiplication.

—Pearl M. Isham, C.P.A.
Los Angeles chapter

"SPACE SAVER"

If yours is an office where storage space is at a premium, consider the following method of transferring file matter which will nearly double your storage capacity.

Contents of file folders are removed in order of the files and wrapped with kraft paper in convenient-to-handle bundles. Bundles are labeled with heavy marking crayon and stored in transfer cases. Old file folders are destroyed, saving nearly half the normal storage space required. Another good feature is that the contents are protected from dust and dirt that inevitably filters into transfer cases.

—Sarah F. Friend
Atlanta Chapter

WHEN THE CHECK SIGNING MACHINE BREAKS DOWN

The use of check signing machines with a signature plate for payroll checks and other large volumes of checks has now become quite wide spread and is certainly a very time-saving device—but—being a mechanical device, it will eventually break down at precisely the most inopportune time possible. To be prepared for this eventuality, have a rubber stamp made which is an exact duplicate of the signature plate. The rubber stamp should be surrounded with all safeguards accorded the plate itself and used only in case of emergency. The time saved in using the stamp on just one payroll when the machine is out of order will much more than repay cost of acquiring the stamp.

—Mary F. Hall, C.P.A.
Washington, D. C. Chapter

TIPS FOR BUSY READERS

CATHERINE E. MILES, Ph.D., Atlanta, Georgia

Practical Applications of Accounting Standards, Carman S. Blough, American Institute of Certified Public Accountants, 1957, 452 p.

The accounting profession is indebted to Carman Blough for many outstanding contributions to the field of accounting. His writings, lectures, and work with the American Institute of Certified Public Accountants are well-known. In *Practical Applications of Accounting Standards*, he has included many of his writings which have appeared in the *Journal of Accountancy* from time to time. As explained in the preface to the book, these articles, although based upon Institute research, are not pronouncements of AICPA. Instead, all opinions expressed are those of Mr. Blough.

The coverage of the book is wide. Included are such subjects as: auditing procedures, the auditor's report, financial statement presentation, income determination, dividends, surplus adjustments, capital stock transactions, business combinations, parent-subsidiary relationships, unincorporated businesses, and nonprofit organizations. Each of these topics is discussed in light of sound accounting theory based upon generally accepted principles. The book is a valuable addition to the library of all accountants.

Norman X. Dressel, Ph. D., C. P. A.
Georgia State College

Accounting Research Bulletins, No. 49: "Earnings per Share", issued by the Committee on Accounting Procedure of the American Institute of Certified Public Accountants, April, 1958.

The bulletin deals with some of the problems confronted in the computation and presentation of the "earnings per share" figure used in business analyses. The Committee reaffirms its earlier conclusions on three points and suggests three general guides to be used in computing and presenting earnings per share. The Committee makes further comments regarding single-year computations, comparative statistics, earnings coverage of senior securities, miscellaneous factors, and dividends per share.

Encyclopedia of Accounting Systems, Robert I. Williams and Lillian Davis (editors), Prentice-Hall, Inc., Englewood Cliffs, N. J., 1956, 5 volumes.

There has long been a need for additional writings on specialized systems of accounting for selected industries. This gap has been partially closed by the publication of *Encyclopedia of Accounting Systems*, a five volume coverage of 67 industries, businesses, and professions. Each system, as presented by a specialist in particular field, is covered by descriptions and illustrations in detail. The accounting system of each industry has been analyzed in line with a logical sequence of topics. Each presentation includes: characteristics of the industry, functional organization, principles and objectives of the accounting system, classification of the accounts, peculiarities of procedures, costing, payroll accounting, fixed asset records, management reports, special time-saving devices, and modifications of the system for small businesses in the field. Each subject seems adequately covered in light of this outline. These volumes should prove to be valuable references for most practicing accountants.

Norman X. Dressel, Ph. D., C. P. A.
Georgia State College

Mathematics and Computers, George R. Stibitz and Jules A. Larrince, McGraw-Hill Book Company, New York, 1957, 228 pp., \$5.00.

The book is designed to give a better idea of the relationships between pure and applied mathematics and the use of computers. Digital and non-digital computing devices are described giving both the capabilities and limitations of such devices. One of the more interesting chapters deals with the history of computers while another discusses computing with random numbers. The latter chapter gives a highly interesting discussion of Monte Carlo methods, binary system, and binary codes which lead to the language of computers.



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